



# ***From the Director's Office***

## ***A review of a dramatic week for investors and the ASRS***

Monday, September 22, 2008



**W**e recently saw in one week just how volatile our financial markets can be. The markets, and as a direct result, the ASRS total fund, fluctuated dramatically.

Consider this: On Friday, Sept. 12, the ASRS fund was valued at approximately \$24.85 billion. On Monday, Sept. 15 we saw the steepest decline on Wall Street since the terrorist attacks of 2001. By Wednesday, the ASRS fund had dropped to \$23.81 billion, its lowest point of the week. Then, the markets bounced back, and as of close of business Friday, Sept. 19, the ASRS fund stood at \$24.91 billion, slightly above where we started one week earlier.

What's important to bear in mind is that throughout that week, and as headlines and speculation ran rampant, the ASRS continued to operate efficiently. We answered member calls, processed retirement applications, collected contributions and prepared to process pension payments for our retirees.

Certainly our investment division was kept busy, analyzing the markets and working with our fund managers to determine if any adjustments to our portfolios should be made. The ASRS, however, takes a long-term approach to investing. Our strategic asset allocation model is designed to produce steady returns over time, and to withstand day-to-day market fluctuations, even those as dramatic as what we saw this week.

During such times, it is important to not overreact with quick buys or sells. Historically, distressed markets have offered long-term investors attractive investment opportunities, and we are evaluating such opportunities daily.

A very natural reaction to what is currently happening in the financial markets and with our economy in general is to be concerned about the security of your retirement benefits. I believe the most important point for our members – active and retired – is to know that your retirement benefits are secure. It is in such times that we can be particularly reassured as participants in a defined benefit plan that is supported by a professionally managed, well-diversified portfolio that your benefits are guaranteed, and not tied to any account balance that may go up or down.

Funds used to pay benefits come into the Retirement System through member and employer contributions, and from investments. And while the market value of the ASRS fund may fluctuate, as do the markets in general, the ASRS fund used to pay current and future benefits is ample and sufficient to meet our guaranteed obligations.

We must, however, keep in mind that long-term depressed markets and a recession-like economy over time will have an impact on the ASRS. Prolonged losses in investments producing negative return rates over multiple fiscal years would cause upward pressure on our contribution rates for our active members and employers.

And while benefit payments to retirees in the defined benefit plan can never be reduced, long-term negative return rates make it difficult to build up an investment surplus that could fund benefit increases through the statutorily-defined Permanent Benefit Increase program.

We know that markets go up and down, and the ASRS will experience gains and losses. We are poised to weather these market swings. And through it all, we will continue to serve our members and provide the retirement benefits that we are obligated to pay. That's our promise to our members.

Paul Matson, Director